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Sub : Transcript of Conference Call held on 15<sup>th</sup> February, 2022

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 15<sup>th</sup> February, 2022 with the Investors.

This is for your information and record.

Thanking you,

Yours faithfully,  
for **Rico Auto Industries Limited**

  
**B.M. Jhamb**  
Company Secretary  
FCS : 2446

Encl : As above



“Rico Auto Industries  
Q3 FY2022 Earnings Conference Call”

February 15, 2022



**ANALYST : MR. VIJAY GYANCHANDANI – S-ANCIAL TECHNOLOGIES**

**MANAGEMENT: MR. ARVIND KAPUR – CHAIRMAN, CEO & MD**  
**MR. O. P. AGGARWAL – CHIEF ADVISOR (FIN & A/Cs)**  
**MR. SURENDRA SINGH – PRESIDENT & COO**  
**MR. RAKESH SHARMA – CFO**  
**MR. SANDEEP RAJPAL – VICE PRESIDENT (MARKETING)**  
**MR. B.M. JHAMB – COMPANY SECRETARY**



*Rico Auto Industries*  
*February 15, 2022*

**Moderator:**

Ladies and gentlemen, good day and welcome to Rico Auto Industries Q3 FY2022 Earnings Conference Call hosted by S-Ancial Technologies Private Limited. As a reminder, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Gyanchandani from S-Ancial Technologies. Thank you, and over to you, sir!

**Vijay Gyanchandani:**

Thank you. Welcome to Rico Auto Industries Q3 FY2022 Earning Conference Call. From the management we have Mr. Arvind Kapur – Chairman, CEO and Managing Director; Mr. O. P. Aggarwal – Chief Advisor (Finance and Accounts); Mr. Surendra Singh – President and COO; Mr. Rakesh Sharma – CFO; Mr. Sandeep Rajpal – Vice-President and Mr. B. M. Jhamb – Company Secretary. Now, I request Mr. Arvind Kapur to take us through the key remarks after that we can open up the floor for Q&A session. Thank you and over to you, sir!

**Arvind Kapur:**

Good evening, my name is Arvind Kapur and I am sitting in the board room along my colleagues here at Rico. Q3 normally if you look at every year it is slower than the rest of the quarters, primarily because in the month of December most of the companies they take a shut down, they close the plant for maintenance and when the products are normally less. But having said that we also have the period of Diwali when there is full pressure to increase the productions, but this year unfortunately the pressure was not so much but nevertheless I can run you through what happened to Rico vis-à-vis the industry. In the two-wheelers it was a big challenge, the two-wheelers industry because of the rural areas is not impacted that this particular quarter the fourth quarter also there would just be okay, there is no aggression as far as the two-wheeler industries and this is what we are seeing.

The car industry is doing very well, there is a waiting, there is a shortage of vehicles at the moment primarily because the production is not there and the reason for that is the chip shortage which we have discussed the last time and the whole industry knows about it because of the chip shortage the volumes are limited.



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Maruti is producing less even the other vehicles KIA or Hyundai or if you look at the Renault Nissan they all producing less and everybody is hoping that by the month of June the chip shortage should get okay, but the fourth quarter that we are talking of I would say, Maruti is saying that they would be touching about 90% or 95% of the total volumes and so are the other car makers also very hopeful that with the additional chips available they will be able sell more and fortunately for the industry and the car industry there is a waiting list and even today the people visiting the show rooms is good and the bookings also very good and that is how we are all hoping that chip shortage gets over, there is enough pressure in the industry for them to supply. The commercial vehicles they did better than last year and now I will tell you about the performance.

In the two-wheeler, this quarter was negative, if you compare it with the previous quarter but Rico grew by 7% with the two-wheeler industry that is primarily because we took a larger share of the components that we are supplying to the two-wheeler industry and in the four-wheelers overall there was negative growth but Rico grew by 10% in the car industry that is again taking a larger share of the components that we are supplying and also introduction of newer components which were well at last year which have come into production now. In commercial vehicles they grew by 16.3% but Rico grew by 21%, again a larger share of components. I must give you one good news that our two-wheeler sales is about 30-35% of our total production and in the four-wheelers, we are now at about 52-53% and the good news is that we have made a good inroads in the electric vehicle sector and earlier we were only 2% of the total sales and this year we should be more than 15 to 16% of our total sales in the electric vehicle sector. So, the growth is pretty good as far as electric vehicles are concerned and we are further on the electrification side we are investing more, we are producing more and next year again there will be new progress of Toyota and the other vehicles which will also come up. So, we are very hopeful that with the chip shortage going away the demand that is seen in the industry at the moment, if that remains and I think the car industry will do very well but the commercial vehicle sector there is a lot of pressure from Cummins and the other customers that we should supply more aggressively and we need to ramp up some capacities. But on the two-wheeler front

we are doubtful whether this growth will actually take place and we are hoping that certain road takes place but having said that, we will further increase our share of the business that we are getting in the two-wheeler industries so that our growth actually happens in the two-wheeler industry. This is as far as the industry and the exports are pretty good and the only problem is that the containers are available now and the rates have also come down but in US there is a huge congestion at most of the ports and in some cases, there is waiting of almost 15 to 20 days and in some cases even more than that and after you clear it from the customs in the US then transportation by rail has become another pain that takes another 15 to 20 days because there is a congestion there also. So, these are some of the issues we are battling with and hence we are shipping more and our turnover would have actually been more because there is a lot of consignment sale which had to take place because of the containers not reaching on time we have started shipping more there would have been a difference of almost about Rs.10 Crores in sales that would have also happened in our last quarter. In freights and packaging despite the costs which have gone up tremendously and these of course it has come down slightly we have been able to save on the freights and packaging by re-organizing our packaging and also the stuffing of the containers. If chip shortage remains that is a big challenge and we are hoping and everybody is hoping that by June it should get over, this quarter is going to be better than the last quarter and the quarter following that should also be even better, so we are hoping that, that would also improve and in the profitability there is a lag impact of aluminium to the tune of about Rs.10 to Rs.12 Crores which we will get it only in the next quarter, but the good news is that in this particular fourth quarter onwards the aluminium seems to be more stable and hopefully the lag should also diminish now. I think you can open it to questions-and-answers that would be better.

**Moderator:**

Thank you. We will now begin the question and answer session. The first question is from the line of Aditya Sen from RoboCapital. Please go ahead.

**Aditya Sen:** Good afternoon, sir. I had a few questions, the first one would be on the capex that we are doing. I wanted some guidance regarding this that from where are you funding this capex and until when will this get commissioned, the capex of Rs.101 Crores that we talked about in the last concall?

**Arvind Kapur:** More than Rs.101 Crores, it is about Rs.125 Crores, now this is the investment that they are doing in Chennai, this is related to primarily for electrification again, this is a Toyota project in particular and we got the order for that, so we have to make a new building and order new equipment which is coming in, we have done already about in that particular project we have already invested about Rs.80 Crores and we are ready for the production by the month of June and the ramp up also takes place immediately after that and the ramp up is more than whatever we had factored initially what we had planned for, initially when we got the orders for this particular electrification project and it has gone up almost about 25 to 30% and we are very excited about this project for Toyota and this is the first time that these particular components would be made for the Indian market and also export back to Japan and also to the other South-East Asian countries. So, we are very excited about that and Toyota is also involved with us, the investment will continue on this particular project.

**Aditya Sen:** Okay, in fact we are also excited about this Toyota project and on this I wanted to know that will this be EV centric only like we are supplying to the Toyota's EV products only or for the entire Toyota's products?

**Arvind Kapur:** This is for the hybrid project of Toyota and hybrid Toyota normally makes it in plant this is the first time they have actually given it out to a supplier to actually make it and they would like to make it these particular models they would like to make it a centre of excellence for shipments to Japan and to India, to South-East Asia and other places. Having said that, we are also bidding for the further electrical components of Toyota that is again could be a huge project, we are looking forward to that also.

**Aditya Sen:** Yes, sir we are highly aggressive on EV?

**Arvind Kapur:** There is no choice because we make a lot of engine components and everybody questions us as to what happens with the engine project that we already have running and even though we are very confident for the next 15-20 years definitely we will be still ramping up the capacities and these components will survive till then. But having said that our focus is primarily on the EV components and having said that some of the Maruti components orders that we have got and what every we have declared earlier they have almost doubled now primarily because of those vehicles which are selling more and we have been asked to produce 1100 – 1400 components a day, now we are producing almost 2000 – 2200 much more than the capacities that we had set up for those components same thing goes for another four-five components of Maruti.

**Aditya Sen:** Okay, sir I get that and the next one would be, I assume that in Q3 the capacity utilization must have been quite low, so can we expect the capacity utilization for Q4 to be around 80 to 83% that was the target earlier?

**Arvind Kapur:** Certainly, say this is on plant-to-plant like our Bawal capacity was fully utilized that was above 85% and our capacity in Gurugram and there were couple of lines which are not running to full capacity otherwise most of the lines were running at almost about 70% capacities. But now we will be running in some other lines at almost 110% – 120% capacity because we will have to of course supplement and some ease and also increase the productivity in those equipments and also run 24/7 so that we are able to meet the customer requirements. But in Chennai, that is where we were running at almost half the capacity and with the chip shortage improving with chips being available now, we are hoping we should be able to run that also at 80% and being the last quarter of the year, every customer is also pushing that they have the maximum sales for the year.

**Aditya Sen:** Okay, thank you sir I got my answers. I will fall back in the queue. Thank you.

**Moderator:** Thank you. We have a follow up question from Aditya Sen from RoboCapital. Please go ahead.

- Aditya Sen:** I will take two more questions, one is are we not too much dependent on Hero MotoCorp, because I think it is around 30-35% of our revenues, will not that impact our profitability at times when the Hero Motocorp is down individually?
- Arvind Kapur:** Our dependence on Hero was once almost 80% and we have been able to bring it down to almost about 30%, we are at about 30% towards Hero and we are also supplying to Bajaj and others and Honda. So, the dependence is there but having said that despite Hero's production being almost 20-30% lower than whatever was budgeted, we have actually increased our sales to Hero by taking a larger share and also spreading our wings as far as the components are concerned. But what you are saying is correct, we have been working on this, on any customer our dependence should not be more than 20% that is what our internal target is.
- Aditya Sen:** Okay, and the last one going back to the capex thing, how is that capex being funded are we raising debt or that is from internal accruals?
- Arvind Kapur:** Mainly raising debt and also partly internal accruals.
- Aditya Sen:** What would be the proportion if you answer this?
- Arvind Kapur:** Beg your pardon.
- Aditya Sen:** What would be the proportion of debt and internal accruals in the capex?
- Arvind Kapur:** It is about 80:20.
- Aditya Sen:** 80% debt, 20% internal accruals, right?
- Arvind Kapur:** Yes.
- Aditya Sen:** Okay, sir. Thank you.



**Arvind Kapur:** Aditya, just to add another to Hero Motor, we have no intentions of reducing our business as per Hero, we will continue being aggressive as far as Hero is concerned. But what we are trying to do is to reduce our dependence on two-wheelers we are aggressively following up as electric vehicles and also the four-wheelers, the cars and also the commercial vehicles.

**Moderator:** Thank you. The next question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.

**Rishikesh Oza:** Sir, my question is regarding if you could give guidance for FY2023 regarding our revenues and EBITDA margins?

**Arvind Kapur:** Let me be honest with you, we are actually waiting for all the details to come from our customers and because depending on the availability of the chips the car people will give us all the details by the end of this month so that we can also plan our budget for next year. But having said that our growth this year will be over 35% but next year also we are anticipating a similar growth to take place with this also includes the new component factors are there and we are hoping that the bounce back will also take place as far as the industry concerned and having said that the profitability obviously will go up very well primarily because of the utilization of the capacity that the investments that have already been made.

**Rishikesh Oza:** In previous calls you also mentioned about achieving a double-digit EBITDA margin, so any indication by when we can achieve that as Q4 is what you had indicated previously but any update around this?

**Arvind Kapur:** The Q4 solely depends on the auto industry how well they perform because it is utilization of a capacity and we were told earlier that by the end of the year the chip shortage should go away, then we were told is going to be the first quarter, then we were the second quarter, so this what is happening but then now we are also checking with the chips maker it as to what has happening globally and now we are fairly certain at least of now that June would be the month where they would close to normal now they will not be absolutely normal but they will be close to normal and EBITDA we will be in the double digits positively next year but this year you

see an improvement taking place but it all depends on the utilization of the capacities and this quarter hopefully the utilization would have been even much better. But I can say also for this quarter in particular our target is to be in double digits.

**Rishikesh Oza:** Okay, we are targeting a double-digit EBITDA margin for Q4 you are saying?

**Arvind Kapur:** We are targeting that, and total discussion is on that and total pressure is on that.

**Rishikesh Oza:** Okay, that is great. Also, sir debt that you said for the new capex of Rs.125 Crores, so that debt will be recognized by when?

**Arvind Kapur:** Early next year.

**Rishikesh Oza:** Okay, and even the capex given the fixed assets will be going up by the same amount by next year?

**Arvind Kapur:** Partly this year, partly next year. Now the goods which are coming by LC from Italy, Japan and all and LC's those some are getting delivered some are in March and some are in April, some are in May and that is what is happening. But some of the machines that are locally purchased and some also come from the Japan those have already been installed there. CWIP is reflecting right now also now also it is reflecting in CWIP and next year it will get capitalized completely.

**Rishikesh Oza** Okay, so by Q1 you will be totally capitalizing that, right?

**Arvind Kapur:** Yes, it should be by the end of Q1 or middle of Q2.

**Rishikesh Oza:** Okay, I got it and the new capacity what is the revenue potential there?

**Arvind Kapur:** The capacity that we are putting is about Rs.170 Crores that is what we had mentioned earlier also that is what we would be keeping but earlier we have mentioned about Rs.140 Crores but then that jumped up in some components it went up by almost 30% and that capacity would also be part of that and having said that we have also done some capacity dispatches for Maruti so there would be

further revenue increase in that also in the Gurugram facility as well as the Bawal facility.

**Rishikesh Oza:** Okay and one last question are we currently seeing any commodity inflation pressures, any container shortages or anything like that?

**Arvind Kapur:** There was never a shortage, there was always price took in, so that is what is happening. Now, only thing is that this war in Europe if that happens then of course the people as far as the oil and gas is concerned and there could be possibility of commodity prices dropping then but we are hoping that, that does not take place and what direction that takes and what direction the commodity takes place after that, that is big question mark. But oil prices will certainly shoot up that is for sure but if you look at the aluminium and all they are most stable now, the steel price is also more stable and the corporate prices have also come down and if you look at all the exotic metals that we talk of they have also tapered off, they have also come down. So, we see a downward trend as far as these commodities are concerned and like I mentioned earlier that there is lag of almost Rs.10 Crores to Rs.11 Crores on the aluminium front alone which we need to take from the customers and which will get paid off in the next quarter that is the formula that we are working on and hopefully this particular fourth quarter we should not have that issue for the next quarter.

**Rishikesh Oza:** Got it, that was very helpful sir. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Shankar Narayanan from Seraphic Management. Please go ahead.

**Shankar Narayanan:** Just wanted some clarity, I believe that three – four years back we used to have gross margins of close to almost 50% now it has come down to almost 42% and I believe that if we have understood properly we were told that as the new programs come in your EBITDA margins and your gross margins would be higher which means some kind of double-digit you moved to kind of mid-teens and your gross margins will get better and so your overall mix will get better. But because of the industry I can understand what has happened, but what is the target we have in

terms of going back to the kind of gross margins given that we have more electric vehicle components as they are now coming into play and as the new programs come into play, how do you see that gross margin going up and how come it will be with your capacity utilization increasing, how will it play into the EBITDA margin?

**Arvind Kapur:**

Like you said capacity utilizations are very, very important part because we lay the investments on truck, to give an example like KIA was doing exceedingly well and we were in fact running short of capacity as far as the supplies are concerned then all of a sudden and as they kept on telling that they are not impacted by the chip shortage primarily because they are getting support from Hyundai as well as Samsung in Korea which is supporting a special supply of chips and we took it as the way it and we made adjustments in our supplies and all of a sudden the crash took place and there was almost zero pickup for almost two months and for the next two months also I think it is going to be little slow. Now, that utilization is going to come back because the investment is huge one-one machine has cost us almost Rs.25- Rs.30 Crores and we are going to keep those machines running even though they are flexible we keep on switching from one component to the other component to whichever other customer has more demand we will do that but there is only a limit to which we can actually go up doing that and hopefully with the chip shortage going away there will be no excuses by the OEM that there is a shortage and they are unable to produce and fortunately there is a tremendous acceptability of the KIA Motors and we are hopeful that they would be back to normal, similarly Renault and Nissan, where Renault and Nissan we have even asked them for a competition for the capacity under utilization that has taken place. In many cases what we have done is rather making fresh investment for new components we have diverted those capacities for the newer components and we have done it in almost 30% of the cases but the only thing that ramp up takes a little while before we can actually come back to those things. So, we are doing on the shuffling that is happening but next year we will surprise you, we will show you very good EBITDA margins which will please you all.

**Shankar Narayanan:** Sir, I just wanted to understand that the commodity inflation and with whatever volumes that you are saying has come down, the question I want to understand is that from a 50% kind of gross margins we are down 42%. So, now I can understand the capacity utilization which will bring down our fixed costs remaining high and bringing down our EBITDA margins. But on the gross margin side when can we get back to the gross margins that we used to have before particularly because we are getting into newer programs if the total components went up, when will we get back to that 50% and when we will be able to pass on the price increases. I can understand that 30% is Hero and that there is some issue there to the end of fiscal would be growing. But if you look at the rest of the business, we should be able to get back to at least 46 – 47% kind of margins, right if I am not wrong?

**Arvind Kapur:** You will see the change come in like I said and primarily. Let me give another news here some of the old components that we used manufacture where the price increases were not being given, we have actually pushed the customers to give us the price increase and those have also started coming in now and because in those cases there was a component some are 15 – 20 years old components which were producing at ridiculous prices. The commodity was being adjusted but nothing as was being adjusted but we managed to get almost 60 to 70% of those components we have got the price hike. So, you see that impact actually coming into the coming quarters and next year with the capacity utilization and also the commodity prices stabilizing you see the gain coming, we are going to bounce back to whatever we were doing earlier.

**Shankar Narayanan:** Because the problem is if we make these kinds of sub-standard margins and the kind of investments that we have made over the last three-four years we are not really getting any kind of returns on the investment that we have made. We cannot be at even 8-9%, 6-7% margins, we have to make two parts for the kind of investments that we have made to get some reasonable return on our investment?

**Arvind Kapur:** The survival at 6-7% margin is not there we got to be as 12 to 15% margins and all the newer components that are coming and all at better EBITDA margins, they are even higher than that and so we are very clear in our mind as to what we need to do there. In some of the cases where the prices are not okay, we have actually started

demanding from the customers that we need to be compensated and customers are looking at those things as well.

**Shankar Narayanan:** Will we see this coming in the first quarter of next year, sir?

**Arvind Kapur:** Yes, we will see in the quarter of next year also. You will see some improvement even in this quarter.

**Shankar Narayanan:** Okay, and what percentage is our exports, sir today?

**Arvind Kapur:** Beg your pardon?

**Shankar Narayanan:** What percentage is exports, sir?

**Arvind Kapur:** We are at about 30% and that is not the indirect export, when I indirect exports I ship it to Renault plants in India fully packed and they ship it further as such, I am not talking the vehicles, I am talking of the components because we have exported as we supply to them to the other countries. So, those earlier we were supplying directly, now they have been supplied through the local OEMs but I am talking of the direct export we are at about 30%.

**Shankar Narayanan:** Okay, sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Bhaskara. D an Individual Investor. Please go ahead.

**Bhaskara D:** Sir, the first question is like we are supplying for couple of years, do we ever see any profits from that client Renault and Nissan I believe that they are very tough customers and I never hear that you made any profit from them more of must have been adding to our gross that I never see that from the commentary that you made any money from Renault and Nissan, is that correct?

**Arvind Kapur:** Let me tell you there is no customer who is easy and nobody wants to share the profits that they have. So, every customer is a tough customer so is Renault and Nissan. But we have left many businesses wherever there was no profitability.

- Bhaskara D:** Okay, sir. The second one is like in the last call someone actually mentioned about some high-end kind of components from BMW, is there any progress from that?
- Arvind Kapur:** We are supplying to BMW for a long time now.
- Bhaskara D:** No, I mean there is some kind of jump into the high-end kind of components would be at the end of the year, it is invested in fund culture?
- Arvind Kapur:** Are you refereeing to the electrical components?
- Bhaskara D:** I think somewhere it is mentioned like it shall be at, yes, I think sir.
- Arvind Kapur:** Like I mentioned initially that our electrical vehicle contribution earlier was only 2% and now we are in the region of almost 15-16% and the growth primarily has come from PSA and from BMW, primarily from these two and the next those is going to come from Toyota.
- Bhaskara D:** Okay, sir and the other one also like in the last call you have mentioned that there is one customer who probably may get into non-auto components, is there any progress on that?
- Arvind Kapur:** We have submitted samples and those have been approved and hopefully I think this particular fourth quarter I think there would be some sales in that as well. We have done some billing as far as the sampling is concerned and also for dyes that amendments that we have done.
- Bhaskara D:** How much it will be in the revenue side on this one?
- Arvind Kapur:** This quarter will not be too much, but we are hoping that that will turn out to be a good new business.
- Bhaskara D:** Okay, some quotes around.
- Arvind Kapur:** The other thing if you are referring to the defense there is a lot of progress that has happened there also and we are mentioned about the tender which is almost Rs.5 to Rs.7 Crores built over 10 years and the government gives an order for 10 years and

that tender has finally started moving, we are just submitting the samples next week or ten days' time everybody is going to submitting these samples for trials and hopefully the trials take about two to three months because firing actually takes place in cold areas and hot areas and other areas and humid areas. So, hopefully the trials would get over the next two-three months and there after that order should also be placed we are very confirmed of those particular orders.

**Bhaskara D:**

Okay, lastly one is commercial, can being in instead in this last 12 years but especially since last four years we did not see much of progress in net profit because until and unless most of us retail investors in Rico Auto, the price will not go up until and unless the net profit actually as far the price goes up, so it is basically as good size investor from the retail perspective kind of last 40% revenues pretty much so how you are going to improve the net profit, gross is okay because the gross may be going up because of inflation side also, because it is cost of the iron or whatever it is, the gross also increases because if we actually calculate in a product price. So, when we will see actual improvement in the net profit because previous net profit of Rs.45 Crores but we are nowhere near to that since last three years?

**Arvind Kapur:**

You see the results next year a lot of change that will happen and let me tell you that we do look at the topline first and then also look at the gross margins but net profit is what we are actually focused on our discussion is internally of all these net profits, it is when we are talking to the market people they are talking of the gross margins. But internally it is net profit that is all that we talk of and those are the challenges that we have and that is where the focus is at the moment and you will see that change coming now onwards. Last year was exceptionally bad primarily because of COVID etc., and now we see that we will be back to good volumes and full volumes and we see the pull that is happening with Maruti and the others. Like I mentioned earlier in most of the component they are always 20 to 30% above the capacity we had actually created, in some cases 40% above the capacity and all of a sudden, we are surprised as to why that pull is also there. We never created that much capacity for those components also, so that will have a major impact on these products and these are all new components we are talking of and these are not the



old components. So, you will see a change and our internal focus is always the PBT.

**Bhaskara D:** Okay, sir one last thing like that for my installation side, when we can see net profit of Rs.50, Rs.75 and Rs.100 Crores in like next 5-10 years when we would be able to see these figures?

**Arvind Kapur:** Well, you see the case in the next year and the year after that also the figures that you are talking probably be around those figures.

**Bhaskara D:** You mean to say like Rs.50, Rs.75 or Rs.100 Crores in the next one, two years?

**Arvind Kapur:** I do not want to be speculative but we are internally targeting those figures.

**Bhaskara D:** Okay, that is it. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Anand Bhat from Agrahar Securities. Please go ahead.

**Anand Bhat:** Good evening, sir. My complaint was that your IR has not being able to even get three people for a conference call for a company which is having a turnover of close to Rs.1600 to Rs.1700 Crores. What I felt was your communication to shareholders either by way of quarterly communications or otherwise has been lacking, because there is no one single institution that let us say on the call, should not the management spend some time and money going to Bombay or going to the institutions that speak about the company which is doing this sort of a turnover which is supplying to this sort of various types of company like Renault, Volkswagen, Maruti and all that and we have seen quoting at 14-15 P/E even though we have been in business for twenty years now. I think change in perspective either from your IR or from the company management who look at investor, market pricing if you have to raise money possibly one year down the line as a Rs.200 Crores expansion or Rs.300 Crores expansion with this sort of a equity price would not, never be the, most of the Delhi, Faridabad companies are all quoting that 25, 30 32 P/E, do not you think that there is something lacking in our

communication to shareholders or to the investor community as much. I am sorry to sound a bit caustic that I just wanted to give the message over to you all.

**Arvind Kapur:**

Anand, thank you so much for the message and we were regular visits to Bombay and the other centres and because of COVID for last two years there has actually been no travels but what you are saying is absolutely correct, I think we can start better communication by even direct communication with all our investors. I think that can also be done and besides that we will be again starting of the process of meeting all the investors and also the future investors in our company. So, we will look at that, we have taken your suggestions. Your observation is absolutely correct and we will recommend that.

**Anand Bhat:**

Sir, my only suggestion is you are doing such a big project for Toyota and EV, there are people who are doing Rs.50 Crores, Rs.100 Crores turnover and shout EV, EV everywhere, so hybrid vehicle of Toyota is supposed to be one of the exhibits for the world and you are supplying to them and nobody knows about it.

**Arvind Kapur:**

The point noted and we will make changes there and we will certainly come up to your expectations as far as communication is concerned.

**Anand Bhat:**

Yes, thank you, sir.

**Moderator:**

Thank you. The next question is from the line of Shankar Narayanan from Seraphic Management. Please go ahead.

**Shankar Narayanan:**

Sir, I have a follow up question, to understand the EV part is almost 15% of your turnover which means approximately estimates almost Rs.50 Crores a quarter, so which means on an annualized basis you are run rating at around Rs.240 Crores odd of EV business, is that the right way to look at it?

**Arvind Kapur:**

No, we had mentioned this earlier also that we will be crossing Rs.200 Crores this year in one of our meetings we have mentioned that.

**Shankar Narayanan:**

Okay, so which means we are run rating around almost Rs.250 Crores right now kind of?

**Arvind Kapur:** Yes.

**Shankar Narayanan:** Okay, in terms of margin profile that should be much better than what we currently meet or is it because it is very small once we cross, so what is the threshold of turnover in EV when you start making really good margins?

**Arvind Kapur:** These components what had happened was, when we got the orders, I will give you one of the examples; in one case we were told that the requirement, handled requirement, this is for Nissan would be about almost 50,000 or 60,000 sets per year and some of the set of four components and when we started the production they would have been pick up that for the first year then the second year all of a sudden instead of 50,000 they wanted 75,000 and then 100,000 or 120,000, so we see that change that is coming about and then the investments were very consistent and we have to do them again and again. Even in the case of BMW what the ambitious targeted was all close to about 65,000 – 70,000 because they were also introducing newer vehicles and they were also not very clear as to how the demand would be. But fortunately for them the government support was tremendous there, the subsidies have been given in Europe, then also the pressure of norms which has come into Europe and that also put a lot of pressure on them to actually focus on the Electric Vehicles. So, what we are supplying is now more than the capacity that we have generated but we have to make consistent investments and the margins are certainly better and let me tell you the components also tougher to make because there is metal change arranging them alright but alloys absolutely different, we have never worked out that alloy before neither at BMW nor at BSA nor at Renault Nissan and now of course we have got to hang of it and we are going full blast on those components. So, it has been a big learning for us also and for us, for BMW, for BSA, for all the customers as well and we are using that learning for the Toyota project and the further new electric vehicle component that we are taking up.

**Shankar Narayanan:** So, what percentage in the next couple of years rather I would put it that way, what percentage it will be to go to almost one forward now, as you told as 25%?

**Arvind Kapur:** I will tell you that is the one issue next year, this year the IC Engine, the conventional engine there has been less production this year as far as India is

concerned, So, next year we must expect that, that should also come back to almost normal and Maruti is saying that India should produce three million vehicles this year, let us hope they beat the target and let us say we all are targeting much higher volumes for that. So, that way we thirst both on the electric vehicles as well as on the IC Engine and the electric components that we are supplying primarily to the European market and partly to Renault Nissan in India which is being exported to China and next year onwards we will also be starting the Toyota project which is again electrification and that would also be a major input that will come so, that this year growth in both of them.

**Shankar Narayanan:** Okay, so the percentage it might not go up much you are saying, but you are saying overall the volumes will be much better?

**Arvind Kapur:** The overall presence will go up but the percentage may not go up to that extent but we want to take the electric components to almost 25% of our turnover.

**Shankar Narayanan:** Okay, again going back to my old question on gross margin. So, by next year with the aluminium price correction happening, stability coming back do you think we will go back to that 47- 48% kind of gross margin by next year?

**Arvind Kapur:** We should be in the region of about 30- 35% next year.

**Shankar Narayanan:** 35% for what sir?

**Arvind Kapur:** The value addition that will happen.

**Shankar Narayanan:** Because our gross margins are at 42% now sir, and we are previously at around 50%, so I am saying by next year should we go back to 47-48% gross margins?

**Arvind Kapur:** Are you placing it on RMC percentage?

**Shankar Narayanan:** Yes, basically on RMC, because RMC is now just on RMC basis, we are at 42% gross margin and we used to be at 50% before, so will we come back by next year to 47-48% gross margins we were at just removing the raw material cost out?

**Arvind Kapur:** Please realize one thing that earlier the aluminium used to be about Rs.110, Rs. 115 a kilo and now it is in the region of Rs.200 a kilo as there is an increase of almost 100% and in some special cases it is Rs.253 a kilo. So, from Rs.110 – Rs.120 we have gone to Rs.253 is almost 100% increase, so hopefully the peak would not remain and this will start coming down and you see the reverse actually taking place but I do not see coming back to Rs.110, Rs.120, Rs.130, so that is one challenge that we have, but having said that all the new components that we pick up we actually do the costing based on the current metal prices. So, that you will see the newer component in a better bracket than the older components which were given to us say two years back or three years back or four years back. So, you will see that this will be a combination of both the components that we would be making.

**Shankar Narayanan:** So, would we see at least 300 basis improvements in gross margin?

**Arvind Kapur:** We will come to 52% - 53% we will come down to that level in any case.

**Shankar Narayanan:** Okay, from basically that is exactly what I was trying to say, so from 57% raw material cost it will come down to 52% - 53% it means your gross margins will go up from 42% to 46-47% that is exactly what I was trying to understand.

**Arvind Kapur:** Yes, absolutely.

**Shankar Narayanan:** Okay, thanks a lot. All the best.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.

**Arvind Kapur:** Thank you so much and despite all the turmoil that we had in the last quarter, we had COVID and etc, and despite that my colleagues have actually performed. We are now on a much stronger wickets and this particular quarter the results should be even better, that is the fourth quarter I am talking of and next year onwards you see a major change that is happening and we are hoping to fall back into whatever we were used to do earlier and come back to the profitability we that we used to have earlier and we would like to show and hopefully the war should not take place in



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Europe that is the only thing that would be against that. The freight container shortage is there that will keep on happening, we will keep on struggling and fighting about that, that is okay, but the wars are one thing that can destroy everything and the economy. So, hopefully everything should be okay and nothing happens in Europe and hopefully the businesses will improve, even in India we see lot of pull from the commercial vehicles as well as the car industry even very well two-wheeler we have not been able to understand as to so much shortfall, why the customers are not there to willing to buy at the moment, is it because of the EVs which have come, the electric vehicles scooters which have come but at the moment the supply of the electric vehicles is so low as far as the two-wheelers are concerned that should really not impact the total sale on these and hopefully next year should be better for all of us and the two-wheeler industry. Two-wheeler industry also improves then of course the whole thing changes even more dramatically, but we are determined as far as the passenger vehicles are concerned, commercial vehicles are concerned to meet the requirements of our customers and to ramp up the capacities as per the requirements. There is a challenge at the moment to really ramp up capacities with Maruti and with KIA again they are being very aggressive now and hopefully that the car sales just carry on like that throughout the year. I must thank everyone for taking out the time. Thank you so much.

**Moderator:**

Thank you very much. On behalf of S-Ancial Technologies Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.